TNDP Events:

305(c) Announcements: Section 305(c) considers that holders of convertible securities may be deemed to have received a dividend as a result of a corporate action on the underlying common stock. The most common scenario is a dividend on a common stock triggers an increase to the conversion rate of a convertible note. This increase in the conversion rate is considered a deemed dividend subject to US withholding tax if the bond is held by a non-US investor.

871(m) Announcements: Section 871(m) imposes a 30 percent withholding tax on dividend equivalent payments that are made or deemed to be made to non-U.S. persons with respect to certain derivatives that reference equity (“Equity Derivatives”) of a U.S. issuer.

ECNI Announcements: Notification if a distribution is in excess of Cumulative Net Income (“CNI”). This potentially imposes a 2nd level US withholding tax on a distribution from a publicly traded partnership.

OTHR Events;

US Tax Re-Classifications Examples

Terms:

1042-S. US Internal Revenue Service Tax form for reporting US sourced income to non-US persons.

**DTC’s 1042-S Classification Announcements**

There will be an announcement on a security. DTC will announce the distribution with a corporate action event type based on the security (generally a DVCA event) and assign an IRSX code based the type of security (e.g. ETF, partnership, corporation, etc…) making the distribution. Sometime after the announcement date, but on or before the record date, the issuer will notify DTC that the distribution has multiple components for 1042-S purposes.

When the issuer provides DTC with the classifications then the IRSX Code on the DVCA event is updated to 99, which denotes that the event has multiple components for 1042-S purposes, and that a separate announcement will be created with those components with the event type OTHR. Each component will have its own Payout Type and IRSX Code on the OTHR event. These 2 events, the OTHR and DVCA, are linked with a Related Events linkage.

DTC pays all clients on the DVCA event, and debits tax from non-US clients on the OTHR event. US clients receive the OTHR as information only.

~~DTC uses its 1042-S Classification Announcement to disseminate 1042-S Income Codes if the data is received from an issuer on or before a record date. In this situation, DTC will create 2 events and link the 2 events with a Related Events linkage. In this example, an ETF provides DTC with data classifying a single distribution into multiple components for 1042-S withholding and reporting purposes.~~

**Example of a 1042-S Classification Announcement:**

ISO Event Code: DVCA

CA ID: 140824683

The event will be originally be announced as a DVCA event with IRSX Code 06 (“Dividend”). IRSX Code 06 denotes a dividend payment for US tax purposes and is the default 1042-S code on distributions from ETFs that are generally classified as corporations for US tax purposes.

When the issuer (e.g. ETF), provides DTC with the classification then the IRSX Code on the DVCA event is updated to 99, which denotes that the event has multiple components for 1042-S purposes, and that a separate announcement will be created with those components. Cash is paid on the DVCA event.

ISO Event Code: OTHR

Event Type: Tax Event

Sub Event Type: 1042-S Classifications

CA ID: 141237464

A separate event breaks distribution into multiple components for 1042-S purposes. In this example the distribution by a US ETF to a non-US holder is broken into two payouts.

* Payout 1: Interest (IRSX Code 01). Generally not subject to US withholding tax
* Payout 2: Dividend (IRSX Code 06). Subject to a 30% US withholding tax

DTC used the OTHR event solely for 1042-S Tax processing, including any tax withholding (debit movements) on the payment to non-US clients.

**Traditional Reclassification Process in the US – after year end**

See email from Liz, My understanding is that most firms have traditionally waited until after year end to perform the reclassification. In the example above, firms will pay out the DVCA and treat 100% of the distribution as a dividend and withhold tax at 30% (or a reduced treaty rate). Then at year they perform a Reclassificatoin process in which they refund any taxes withheld on the portion that is reclassified from Dividends to Interest.

**Distributions with multiple sources of income**

Granite REIT: Cusip 387437114.

See March 15th, 2024 payable date distribution. $0.275 is Canadian sourced distribution subject to Canadian withholding tax. The same $0.275 is also subject to US withholding tax as $0.120 is US sourced dividends and $0.155 is US sourced interest.

See CA ID 142482901. DVCA CHOS, rate of $0.275 event for clients to instruct Canadian withholding rates. Clients can either get paid $0.275 or less 25% Canadian taxes. IRSX Code set to 99.

See CA ID 142928479. OTHR Event – with two payouts for the 2 components that are US sourced income. DTC does not allocate on this event but may debit US withholding taxes from its non-US clients.

Instead of using OTHR, we are recommending to use RCLA event to provide the US tax components for 1042-S tax withholding. In this example, RCLA needs to be an information only announcement. RCLA would inform clients that it is tax related.

Reason(s) for separate event:

* A specific payment can be classified differently in different jurisdictions. For example, a distribution may be considered a Return of Capital for Canadian tax purposes and dividend for US tax purposes.
* Similarly, a distribution may be taxed different depending on the jurisdiction on of the investor. For example, a distribution by a partnership is generally considered as a Return of Capital for US partners but may have other classifications to non-US partners for US tax withholding regulations.
* Feedback we received was that breaking the DVCA event into multiple components potentially broke STP and the cash allocation process. It also was forcing clients into processing the tax classification process whether or not they had non-US holders
* By providing the data on a separate announcement and linking the 2 announcements, receivers of the Tax data can decide how they want to consume the data.